

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AGR-10 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-01 H-02 INR-07 INT-05 L-02 LAB-04

NSAE-00 NSC-05 PA-02 RSC-01 AID-05 CIEP-02 SS-15

STR-04 TAR-01 TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00

OMB-01 SWF-01 EURE-00 /117 W
----- 065197

P R 031650Z DEC 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 8471

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

UNCLAS SECTION 1 OF 2 ROME 16782

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: MORO ECONOMIC PROGRAM

REF : A. ROME 4025 DATED MARCH 22, 1974

B. ROME 16175 DATED NOVEMBER 19, 1974

1. /SUMMARY/: ECONOMIC PROGRAM OUTLINED IN PARLIAMENT
DECEMBER 2 BY PREMIER-DESIGNATE MORO IN LARGE MEASURE
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COMMITTS TWO-PARTY GOVERNMENT TO BASIC ECONOMIC POLICIES

OF PREVIOUS CENTER-LEFT RUMOR GOVERNMENT. MORO ECONOMIC PROGRAM PLACES RENEWED EMPHASIS ON URGENT NEED TO REDRESS BALANCE OF PAYMENTS AND TO FIGHT AGAINST INFLATION. IT ALSO GIVES HIGH PRIORITY TO INVESTMENT IN SOUTH, IN FOOD AND IN ENERGY AND TO REDUCING OIL IMPORTS THROUGH ADOPTION OF APPROPRIATE ENERGY CONSERVATION MEASURES. MORO ALSO CITED DEFENSE OF REAL INCOMES AND MAINTENANCE OF EMPLOYMENT LEVELS AS OTHER MAJOR GOALS OF HIS GOVERNMENT. /END SUMMARY/.

2. /BALANCE OF PAYMENTS/. IN ORDER TO REDUCE BALANCE OF PAYMENTS DEFICIT, GOI INTENDS TO: (A) USE SELECTIVE CREDIT POLICIES IN FAVOR OF EXPORTING FIRMS, (B) ENCOURAGE FORMATION OF EXPORT CONSORTIA, (C) INTRODUCE FISCAL INCENTIVES TO ENCOURAGE EXPORTS AND DISCOURAGE IMPORTS CONSISTENT WITH GOI INTERNATIONAL OBLIGATIONS AND COMMITMENTS, (D) INCREASE MEDIO CREDITO CAPITAL BASE AND RAISE CEILING ON EXPORT CREDIT INSURANCE, (E) DISCOURAGE TOURIST PAYMENTS BY ITALIANS ABROAD, (F) STRENGTHEN FOREIGN EXCHANGE CONTROLS TO REDUCE CAPITAL EXPORTS AND STRENGTHEN PENALTIES AGAINST TRANSGRESSORS, (G) INTRODUCE SEVERE RESTRICTIONS ON ENERGY CONSUMPTION WITH VIEW TO REDUCING PETROLEUM IMPORTS BY 10 PERCENT FROM 1973 LEVELS, AND (H) CREATE SINGLE AUTHORITY RESPONSIBLE FOR DEVELOPING GOI ENERGY POLICY AND CENTRALIZE ENERGY IMPORTS UNDER ENI. IN AGRICULTURAL FIELD, GOI INTENDS TO: (A) ENCOURAGE DOMESTIC PRODUCTION OF HARD WHEAT, SUGAR BEETS, FEED GRAINS, AND LIVESTOCK, AND (B) SEEK CHANGES IN DOMESTIC FOOD CONSUMPTION PATTERNS THROUGH ADOPTION OF APPROPRIATE FISCAL MEASURES, THROUGH CAMPAIGN OF CONSUMER INFORMATION AND GUIDANCE, AND POSSIBLY THROUGH ADOPTION OF REGULATIONS WHICH PROHIBIT SERVING OF BEEF IN PUBLIC EATING PLACES FOR SEVERAL DAYS EACH MONTH.

3. /PRICES/. IN ORDER TO ASSURE DEFENSE OF PURCHASING POWER OF WAGES AND THEREBY TO OBIVIATE "DEFENSIVE" AND INFLATIONARY WAGE DEMANDS BY LABOR UNIONS, GOI INTENDS TO: (A) LIMIT CONSUMER PRICE RISE IN 1975 TO 16 PERCENT AND IN THIS REGARD TO CONTINUE EXISTING LIMITED PRICE CONTROLS ON LARGE-CONSUMPTION FOOD ITEMS (PASTA, BREAD, OIL AND SUGAR), (B) STRENGTHEN ROLE OF STATE FOOD TRADING

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AGENCY AIMA IN INTERVENING IN FOOD SECTOR, AND (C) SEEK REORGANIZATION OF PRICE CONTROL ENFORCEMENT MECHANISM (CURRENTLY THE RESPONSIBILITY OF 4 SEPARATE ORGANIZATIONS).

4. /MONETARY POLICY/. GOI INTENDS TO: (A) MAINTAIN TIGHT CREDIT POLICIES CURRENTLY IN FORCE BUT REVIEW POLICY IN A FEW MONTHS' TIME, (B) REDUCE SHORT-TERM INTEREST RATES ON BANK DEPOSITS BUT MAINTAIN DOMESTIC RATES HIGHER

THAN FOREIGN RATES TO DISCOURAGE CAPITAL FLIGHT, (C) APPLY AVAILABLE CREDIT MORE SELECTIVELY AND CONSISTENT WITH OVERALL POLICY OBJECTIVES OF FOSTERING GREATER EXPORTS, REVIVING CONSTRUCTION INDUSTRY AND SPURRING INDUSTRIAL DEVELOPMENT IN MEZZOGIORNO, AND (D) CREATE NEW METHOD OF MOBILIZING SAVINGS, ESPECIALLY FOR HOUSING, PROBABLY IN FORM OF INDEXING.

5. /FISCAL POLICY/: MORO PLEDGED HIS GOVERNMENT TO UNDERTAKE "SEVERE" REVIEW OF CURRENT ACCOUNT EXPENDITURES AND ALLUDED TO POSSIBILITY THAT IN 1975 GOVERNMENT WOULD ASSUME FROM INDUSTRY A GREATER SHARE OF SOCIAL COSTS OF UNEMPLOYMENT. IN CONNECTION WITH REFORMS OF PUBLIC ADMINISTRATION, HE PLEDGED GOVERNMENT TO A RATIONAL DECENTRALIZATION OF AUTHORITY AND TO MORE EFFICIENT USE OF RESOURCES INCLUDING LIMITS ON HIRING OF PERSONNEL. MORO ALSO CITED NEED TO IMPROVE TAX ASSESSMENTS AND COLLECTION.

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STR-04 TAR-01 TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00

OMB-01 SWF-01 EURE-00 /117 W

----- 065244

P R 031650Z DEC 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 8472

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

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6. /WAGES AND EMPLOYMENT/: IN LABOR FIELD GOI PLEDGES TO
COMPENSATE FOR DECLINES IN DOMESTIC CONSUMPTION AS RESULT
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OF ECONOMIC AUSTERITY POLICIES BY PURSUING POLICIES AIMED
AT MAINTAINING EMPLOYMENT LEVELS AND PURCHASING POWER OF
WAGES. GOI PLEDGES TO DEAL WITH LABOR DEMANDS AT HIGHEST
POLITICAL LEVELS AND TO BASE SUCH DEALINGS IN CONTEXT OF
EXISTING ECONOMIC REALITY AND OVERALL GOI ECONOMIC POLICIES.
MORO CAUTIONS AGAINST COMPETITIVE BIDDING UP OF WAGE RATE
INCREASES AMONG DIFFERENT UNIONS. WHILE TAKING NO FIRM
POSITION YET ON PROPOSALS BY LABOR UNIONS TO UNIFY AT
HIGHEST LEVELS THE COST OF LIVING WAGE ADJUSTMENT MECHANISM,
MORO IMPLIES, THAT THIS WOULD NOT BE CONSISTENT WITH GOI
16 PERCENT WAGE INCREASE GUIDELINES FOR NEXT YEAR.

7. /COMMENT/. WIDE-RANGING GOVERNMENT ECONOMIC PROGRAM
OUTLINED ABOVE IN LARGE MEASURE REPRESENTS RE-STATEMENT
OF ECONOMIC OBJECTIVES OF PREVIOUS RUMOR GOVERNMENT (SEE
REFTEL B). MORO PROGRAM CONTINUES TO ADDRESS SERIOUS
INFLATION AND BALANCE OF PAYMENTS PROBLEMS FACING ITALY
BUT ALSO PROVIDES SOME POSSIBILITY FOR ADOPTING ANTI-CYCLICAL
MEASURES IF NEEDED. GOVERNMENT IS COMMITTED TO DIFFICULT
BALANCING ACT BETWEEN POLICIES FOR FIGHTING INFLATION,
WHILE AT SAME TIME ENCOURAGING EXPORT GROWTH AND MAINTAINING
EMPLOYMENT LEVELS. NONETHELESS, MORO PROGRAM PROBABLY
REPRESENTS AS MUCH AS CAN BE EXPECTED GIVEN: (A) DIFFICULT
POLITICAL CLIMATE AND BACKGROUND OF PROTRACTED POLITICAL
CRISIS AGAINST WHICH NEW GOVERNMENT HAS BEEN FORMED, AND
(B) NEED TO RECONCILE DIFFERING VIEWS AS TO APPROPRIATE
ECONOMIC POLICIES FOR COMBATTING INFLATION WITHOUT INCURRING
UNACCEPTABLE POLITICAL RISK OF CAUSING SERIOUS ECONOMIC
RECESSION BY TOO STRICT DEMAND MANAGEMENT POLICIES. MORO
STATEMENT BEFORE PARLIAMENT DID NOT MAKE SPECIFIC REFERENCES
TO EMERGENCY INVESTMENT PROGRAM REPORTED REF B.VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, CENTRAL GOVERNMENT
Control Number: n/a
Copy: SINGLE
Draft Date: 03 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME16782
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740350-0471
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741264/aaaacczr.tel
Line Count: 222
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: A. ROME 4025 DATED MARCH 22, 1974
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 26 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 SEP 2002 by ReddocGW>; APPROVED <13 FEB 2003 by CollinP0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MORO ECONOMIC PROGRAM
TAGS: EFIN, IT
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005